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PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University March 1987

JANUARY BRINGS WITH IT CONTINUATION OF RECENT TRENDS

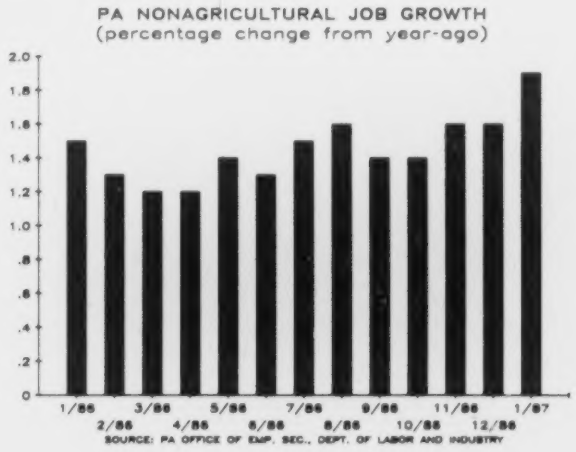
Given that growth in the national economy is expected to fall far short of robust, it is hard to figure out where any upward pressure on economic growth in Pennsylvania will be generated. On the plus side, although there are a few pessimists, the general consensus is that the national economy should proceed through 1987 without lapsing into a recession. In that Pennsylvania follows national trends, it appears safe to conclude that the Commonwealth should also fall into this moderate-growth path.

The nonmanufacturing sector has several industries showing considerable job gains, giving the overall economy a good boost. Especially strong gains are being realized in the construction industry (see chart). Job gains have remained in the 7-11 percent range throughout the past year and appear to be on the rise compared to gains of under 2 percent for all nonagricultural jobs and about 3 percent for nonmanufacturing as a whole. Given the seasonal nature of the industry, a decline of about 23,500 jobs was expected this past January based on historical trends. In that the number of jobs actually fell by 24,500, the end result was a decline of about 1,000 jobs after adjustment for these seasonal trends. Still, January's 209,100 jobs, seasonally adjusted, represents the third highest level over a period stretching back to early 1974.

Because mortgage rates should hold fairly steady, activity in the single-family residential sector should remain quite high. However, partly because of less favorable tax treatment, the outlook for multi-family housing and for nonresidential construction is not as encouraging.

This overall scenario of solid construction activity is backed-up by the recent behavior of the value of construction contracts awarded which have been on a general upward trend recently. Additionally, the "Housing Permits Report" contained in the February issue of the *Survey* highlighted the Commonwealth's strong showing in terms of housing units authorized by permits, a good estimate of trends in housing starts.

Job gains in the finance, insurance, and real estate category have also been encouraging as shown in the accompanying chart. Compared to their year-ago levels, the number of positions in these industries have grown by more than 5 percent in each of the last 12 months. The number of wage and salary jobs in these industries have increased more or less continuously since the end of the back-to-back recessions of the early 1980s to stand at a seasonally adjusted record high of 284,500 in January. **Modest income gains and increased sophistication on the part of consumers of financial instruments have been partly responsible for a surge in activity in these industries. The construction-related component of these businesses also benefited from the rise in building activity.**



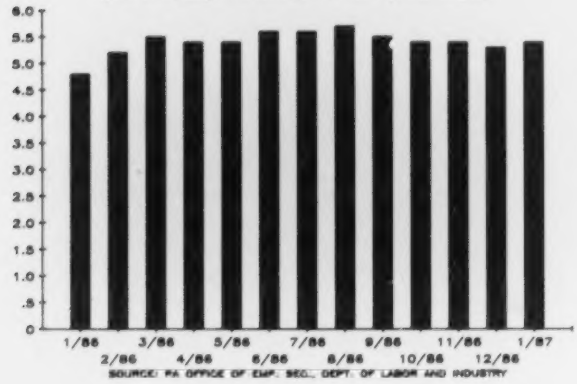
Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1986-87		1986	1986-87		1986	1986-87		1986
	Dec.	*Jan.*	*Jan.*	*Dec.*	*Jan.*	*Jan.*	*Dec.*	*Jan.*	*Jan.*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,887	4,763	4,673	4,836	4,845	4,762	105.9	106.1	104.3
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,841	3,727	3,612	3,801	3,809	3,693	117.9	118.2	114.6
Mining	32	31	34	33	33	35	68.9	68.5	73.1
Contract construction	207	182	164	210	209	191	114.3	113.7	103.8
Transportation	142	136	136	139	139	139	86.4	86.5	86.3
Public Utilities	102	103	101	102	103	101	101.3	101.8	100.5
Wholesale trade	265	263	255	264	265	257	119.1	119.5	116.0
Retail trade	881	834	809	848	849	823	118.2	118.3	114.7
Finance, insurance & real estate	282	281	267	283	285	270	130.2	130.8	124.1
Service & miscellaneous	1,241	1,222	1,172	1,242	1,245	1,194	144.0	144.3	138.5
Federal government	138	138	139	139	139	140	108.2	108.3	109.3
State & local government	549	536	535	541	543	542	92.8	93.1	93.0
Manufacturing									
No. of wage and salary jobs (thous.)	1,036	1,026	1,059	1,036	1,036	1,069	77.2	77.2	79.7
Durable goods	585	579	608	585	585	614	72.2	72.2	75.8
Nondurable goods	451	447	451	451	451	455	84.7	84.8	85.5
Ave. wkly. hrs. worked by prod. workers	41.2	40.4	40.0	40.9	40.8	40.4	103.4	103.2	102.2
Total wkly. person-hours worked (mils.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total wkly. payroll (mil. dols.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Steel production (thous. tons)	506	598	955	n.a.	n.a.	n.a.	28.6	28.4	45.3
Industrial electric power sales (mil. kwh)	3,404	3,364	3,465	3,491	3,419	3,515	94.5	92.6	95.2
Mining									
Anthracite coal (thous. net tons)	340	327	261	323	380	297	66.2	77.7	60.8
Bituminous coal (thous. net tons)	4,222	n.a.	5,590†	4,301	n.a.	5,806†	61.0	n.a.	82.3†
Construction contracts awarded (mil. dols.)									
Total	553.2	480.7	443.4*	645.4	765.4	660.2*	200.6	237.9	205.2*
Residential building	247.7	180.2	151.8*	323.3	385.5	314.3*	229.7	273.9	223.3*
Nonresidential building	152.9	200.5	157.4*	179.2	251.2	178.7	165.2	231.6	164.7*
Nonbuilding (utilities and public works)	152.6	100.0	134.2*	142.9	128.7	167.2*	197.1	177.5	230.7*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,220	5,131	5,049	5,236	5,264	5,183	109.0	109.5	107.9
Unemployed									
No. of persons (thous.)	258	359	445	293	336	423	73.1	83.9	105.4
Rate (percentage of labor force)	4.7	6.5	8.1						
Rate, seasonally adjusted				5.4	6.1	7.6			
Civilian labor force, no. of persons (thous.)	5,478	5,490	5,494	5,529	5,600	5,606	106.2	107.6	107.7
Initial claims for unemployment benefits	155,335	162,578	189,342	104,657	103,997	122,033	73.1	72.6	85.2

Consumer Prices, all items	Urban Indexes (1967 = 100) 1986-87 *Dec.*	*Jan.*	1986 *Jan.*	Percentage Change *Month Ago*	*Year Ago*
U.S. city average	325.7	327.7	324.3	+0.6	+1.0
Philadelphia	326.6	329.1	323.0	+0.8	+1.9
Pittsburgh	311.8	n.a.	312.8†	n.a.	−0.3

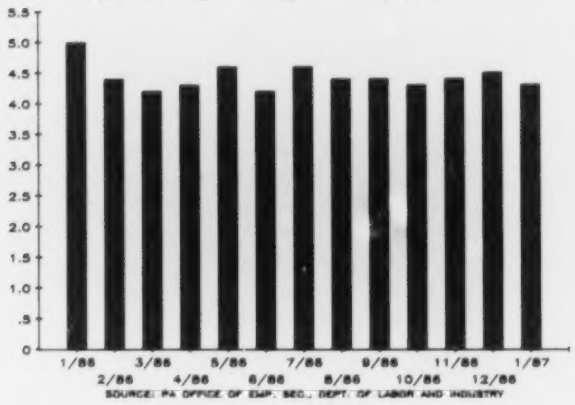
[1] Total includes workers on strike. * = figure revised † = figure for November 1985 n.a. = data not available

SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

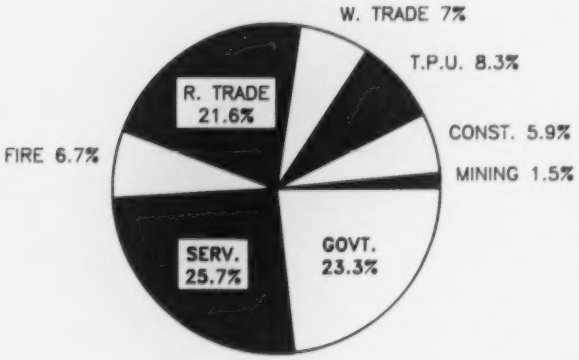
PA FINANCE, INSURANCE, AND REAL ESTATE JOB GROWTH
(percentage change from year-ago)



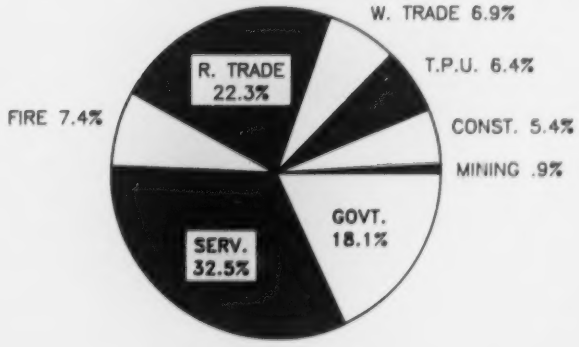
PA SERVICES JOB GROWTH
(percentage change from year-ago)



PA NONMANUFACTURING JOB SHARES, 1975



PA NONMANUFACTURING JOB SHARES, 1986



The most widely-publicized "growth" industry as of late has been services. The number of positions in this category have grown continuously over the two-and-a-half decades for which comparable data are available despite four economic recessions and stood at 1.25 million in January after seasonal adjustment, another record high. Throughout the past several months, year-over-year job gains have remained in the 4-5 percent range.

The number of jobs in the retail and wholesale trade industries have also advanced to record highs recently, although growth appears to be trailing that in nonmanufacturing as a whole. (Please see this month's "Retail Sales Report" for a further analysis of trends in Pennsylvania's retail sector.)

As a result of these developments, **nonmanufacturing job levels have been rising almost non-stop since early 1983, setting new records almost every month.** In January, the number of positions in these establishments rose for the sixth straight month, settling at 3.81 million after adjustment for normal seasonal variations. This represents a gain of 8,400 jobs from December.

A comparison of nonmanufacturing job shares in 1986 and 1975 highlights some interesting changes in economic structure. Three trends appear to stand out. After accounting for 6.7 percent of all nonmanufacturing jobs in 1975, the finance, insurance, and real estate category increased its share to 7.4 percent in 1986. The share accounted for by the government fell considerably, from 23.3 to 18.1 percent. Over that time period, federal government job levels in the Commonwealth rose from 134,400 to 139,000. On the other hand, State and local governments reduced their payrolls from 587,000 to 540,600. The third noteworthy trend concerns services which increased its share from 25.7 percent to 32.5 percent.

As has been the case as of late, nonmanufacturing's strength only represents half the story. Any discussion of Pennsylvania's economic performance would not be complete without an analysis of trends in manufacturing. Although growth in the service-producing area appears to be outpacing manufacturing, **relatively speaking, Pennsylvania's economy has been and will continue to be manufacturing-based.** In 1975, manufacturing accounted for 30 percent of all nonagricultural jobs in Pennsylvania compared to 22 percent in 1986. At the national level, the corresponding shares were 24 percent in 1975 and 19 percent in 1986.

Manufacturing job levels fell for 27 consecutive months after seasonal adjustment in Pennsylvania, bottoming out at 1,035,300 in November. Since then, job levels have advanced slightly in each of the past two months, settling at 1,036,000 in January. Not surprisingly, these very minimal gains may be traced to the nondurable goods industries. Durable goods industries continue to lose jobs.

However, the end of the USX strike may exert some upward pressure on job levels over the next few months.

Although several factors help account for manufacturing's difficulties, the foreign trade deficit, a problem beyond the control of State economic officials, is most often cited. Many policymakers at the national level feel that recent declines in the value of the dollar should soon begin showing up in improvements in the trade picture. However, **recent events have created some problems with respect to monetary policy.** Should the Federal Reserve wish to let the dollar fall further, there is the threat of increased inflationary pressures. Should they attempt to prop up the dollar, perhaps through a tighter set of credit policies, they may risk choking off the current economic expansion which is now into its fifth year.

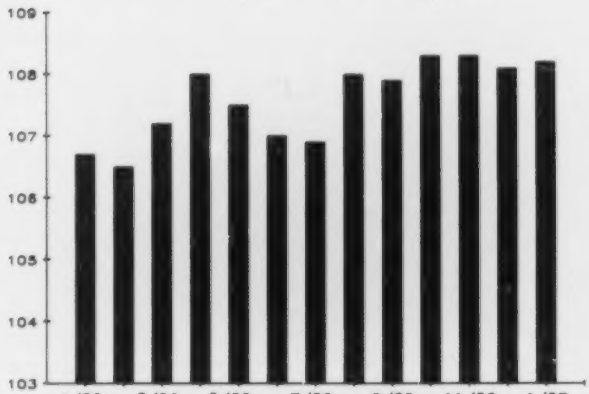
Partly because of the behavior of the dollar and the threat of slightly higher oil prices, it is quite likely that inflation will rise in 1987. **The general consensus is that prices will rise at about a 4 percent rate this year.**

The end result of January's economic activity was a rise in the unemployment rate from 5.4 percent in December to 6.1 percent after seasonal adjustment. Still, the January reading is a full 1.5 percentage points below a year ago. At the same time, employment rose for the second straight month following three consecutive declines. Essentially, January's rise in unemployment is attributable to a large jump in the labor force, the first increase since August 1986.

The Pennsylvania index of leading indicators which provides clues as to the future course of the economy, rose only slightly in January. In that the index has been holding in a very narrow band for the last half-year, **there appear to be no indications of any deviations from the State's moderate growth trends experienced over the past several months.**

— William D. Anderson

PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan 1972=100)



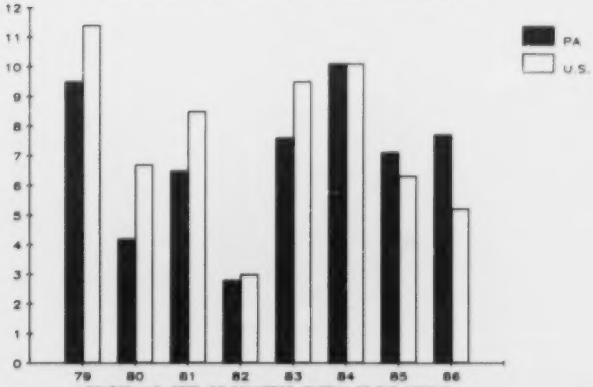
SOURCE: THE PENNSYLVANIA STATE UNIVERSITY, COLLEGE OF BUSINESS ADMINISTRATION

Retail Sales Report

Strong gains in the durable goods category pushed up total retail sales in Pennsylvania in 1986 by 7.7 percent to $68.8 billion. Nationally, retail sales grew by 5.2 percent. After trailing the nation every year over the 1979-1983 period, Pennsylvania retail sales growth has exceeded the nation's gains in each of the last two years. (In 1984, both Pennsylvania and the nation realized 10.1 percent increases.)

The volatile durable goods category showed a very strong gain of 15.3 percent last year. Some of this surge was likely the result of attractive incentive packages on the purchases of automobiles and trucks. These packages probably lured a great many buyers into showrooms throughout the nation and here in Pennsylvania. Another contributing factor was solid growth in construction activity, especially for single-family residences. This probably spilled over into increased purchases of such things as appliances and furniture. Finally,

PA AND U.S. RETAIL SALES GROWTH
(percentage change from year-ago)



SOURCE: U.S. DEPT. OF COMMERCE, BUREAU OF THE CENSUS

some of the gains were probably influenced by pending tax law changes.

Nondurable goods retail sales grew at a much slower 3.5 percent rate last year. This category tends to be much less volatile than durable goods. One possible explanation for this is that many "necessities" such as food and clothing are included in the nondurable goods group. Sales of these kinds of items are less subject to outside shocks.

The general consensus among most analysts is that the growth in retail sales and consumer spending in general will probably be influenced by two factors. First of all, tax reform may exert some downward pressure on growth. Some of this pressure will result from the phase-out of the deductability of consumer interest. Additionally, consumers are likely to be somewhat cautious until they are more familiar with the specifics of the new laws. Secondly, heavy debt loads will eventually force consumers to retrench. Still, these developments will only *slow* spending growth, not bring about declines.

Pennsylvania retail sales (millions of dollars)

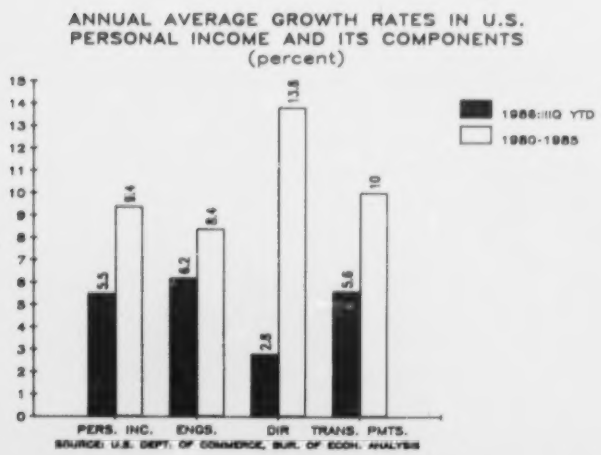
	Retail sales	Pct. change from yr. ago	Durable goods	Pct. change from yr. ago	Nondur. goods	Pct. change from yr.ago
1986:IVQ	19,121	7.9	6,874	19.7	12,247	2.2
1986:IIIQ	17,558	6.2	7,116	18.5	10,442	2.1
1986 YTD	68,793	7.7	25,892	15.3	42,901	3.5

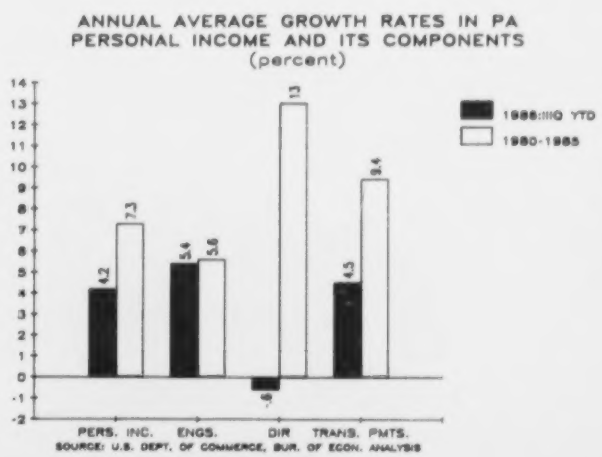
Data is preliminary.
Source: U.S. Dept. of Commerce, Bureau of the Census

Personal Income Report

Personal income rose 0.8 percent in Pennsylvania during last year's third quarter to $166.7 billion. Nationally, growth totalled a slightly smaller 0.5 percent. In that the last time the Commonwealth outperformed the nation was 1984:IIQ and the relative strength of the State's most recent performance may be traced to the very small, and very volatile, farm sector, it is doubtful that this represents the start of a trend. Growth in nonfarm income, also at 0.8 percent in Pennsylvania during the third quarter of 1986, trailed the nation's 1 percent advance. On the positive side, recent gains in personal income have been strong enough to compensate for a slight rise in overall price levels.

Personal income measures income from all sources: earnings; dividends, interest, and rent (DIR); and transfer payments. A comparison of recent growth trends in these three components relative to historical performances and with respect to national trends brings out some interesting points. On a year-to-date basis, personal income growth in the Commonwealth came in at 4.2 percent for the first three quarters of last year relative to the same period in 1985. However, growth during the first half of the 1980s averaged a much larger 7.3 percent. This decline in growth is partly the result of weakness in the DIR component where income actually declined 0.6 percent on an annual basis during the first three





quarters of 1986 compared to an average annual gain of 13 percent during the first half of the decade. It is also attributable to weakness in income growth originating from the transfer payments category. Year-to-date growth came in at 4.5 percent through September of last year, less than one-half the 1980-1985 average of 9.4 percent. In the largest category, earnings, which accounts for about two-thirds of personal income, growth through the first three quarters of last year was pretty much in line with recent historical trends (5.4 vs. 5.6 percent).

In addition, despite the improvement in the third quarter, recent trends suggest that Pennsylvania has not been performing up to national standards. On a year-to-date basis, personal income growth at the national level measured 5.5 percent through the first three quarters of 1986, well in excess of the Commonwealth's 4.2 percent rise. Growth in all three categories was considerably stronger at the national level. Much the same can be said for trends over the 1980-1985 period, although much of our poor showing seems to have occurred in the earnings category.

All in all, trends in personal income growth appear to be quite similar to trends in overall economic growth. Clearly, the Commonwealth has registered some recent gains on the income front. However, growth has been moderate and leaves something to be desired compared to trends at the national level.

Pennsylvania personal income
(seas. adj. ann. rates; millions of dollars)

	Personal income	Pct. change Qt. ago	Pct. change Yr. ago
1986:IIIQ	166,652	0.8	4.3
1986:IIQ	165,364	1.1	4.1
1985:IIIQ	159,837	0.6	4.9

Source: U.S. Dept.of Commerce, Bur. of Econ. Analysis

Travel and Tourism: Pennsylvania's Second Largest Industry

Pennsylvania's economy is in a rapid state of transition. During the period from 1979-1985, total employment in traditional occupations such as mining declined 27 percent, while employment in manufacturing likewise declined 21 percent. While these traditional areas of employment declined, the service sector of Pennsylvania's economy increased 23 percent (Fuller and Gillis, *Road to Renaissance: Growth Industries for Pennsylvania*, 1986).

One often overlooked area of employment within a growing service sector is tourism. In 1985, travel and tourism directly accounted for 184,124 jobs throughout the State or about 4 percent of the nonagricultural employment. While total employment declined from 1980-1984 by 0.4 percent, travel-generated employment was up 3.4 percent (*Pennsylvania Travel Review*, 1985).

Travel expenditures in Pennsylvania increased to $8 billion in 1984, up 8 percent from 1983. By 1985, travel expenditures totalled over $8.8 billion, making Pennsylvania the sixth largest state in terms of travel expenditures.

Travel and tourism is the second biggest industry in the State of Pennsylvania (U.S. Travel Data Center, 1985). Of particular economic importance is the fact that 53 percent of the total expenditures are from out-of-State travelers, thus bringing revenue into the State as well as recycling it within the State (*Pennsylvania Travel Data Book*, 1985). The vast majority of trips through and to Pennsylvania, 85 percent, were for pleasure rather than business. The average round trip in 1984 to or through the State was 940 miles in length, an increase of 220 miles from 1974.

Pennsylvania travel expenditures as a portion of the gross state product amounted to 2.8 percent in 1972, 4.6 percent in 1978, and 4.9 percent in 1984. This growth directly generates new jobs. In 1984, every $43,402 spent by travelers directly generated one job (*Pennsylvania Travel Review*, 1985).

Research concerning the characteristics of the Pennsylvania traveler (Shih, *VALS As a Tool of Tourism Market Research: The Pennsylvania Experience*, 1986) has shown that they are most frequently "Belongers" — conservative and conventional middle-class people who live comfortable, home-centered lives. "Belongers" rate Pennsylvania higher than surrounding states as a safe place to visit, having reasonable prices, relaxing vacations, friendly people and beautiful scenery. Travelers with a wide variety of lifestyles think of Pennsylvania as having friendly people, confirming the appropriateness of the State's "You've got a friend in Pennsylvania" campaign.

In order for Pennsylvania to re-orient and expand its economic base, a multiple strategy must be undertaken with tourism an increasingly important component along with the

development of high-tech industry, and the revitalization of agriculture and traditional industries.

Tourism and leisure amenities provided by communities have become a critical force in attracting and retaining industry, revitalizing urban centers, and maintaining the high quality of life. In many instances, the infrastructure of both small towns and large cities is more dependent on tourism and other leisure behavior than upon a traditional industrial base. Historic preservation, urban waterfront redevelopment, local festivals, increased use of public parkland by tourists and the development of conference and convention facilities demonstrate this trend.

Although many industries within Pennsylvania have a direct and extensive relation within institutions of higher education, the same cannot be said for tourism. While isolated University coursework and research concerning tourism has existed within the State, Pennsylvania had not established any systematic relationship between the tourism industry and higher education such as exists in many states. In such states, universities, particularly land-grant universities, have established centers to aid the tourism industry within their state and region.

In 1985-1986, a study was undertaken jointly by Penn State University's College of Business Administration and College of Health, Physical Education, and Recreation to determine the need for a university-based tourism center in Pennsylvania and the adequacy of the educational resources of Penn State which could contribute to such a center. Results of the study showed both a need in Pennsylvania for a university-based tourism center as well as the existence of qualified faculty from a number of diverse academic backgrounds with interest and accomplishments related to tourism.

The Center for Travel and Tourism Research: Based upon the results of this study, in January 1987, The Pennsylvania State University established a Center for Travel and Tourism Research. This Center is designed to be a self-supporting unit specializing in applied research relating to tourism. It will also serve as a repository for data concerning travel and tourism in Pennsylvania as well as the rest of the world.

Research undertaken by the Center will utilize the skills of faculty from a variety of disciplines. Such research may include studies of tourism promotion, tourism marketing and management, the economic, cultural, social and environmental impacts of tourism; tourist motivations, satisfactions and behaviors; evaluation of tourism marketing campaigns; the role of tourism in industrial development in downtown revitalization; the impact of tourism on job creation and retention; and the impact of tourism on public lands.

In terms of "tracking" the tourism industry, the Center will begin some monitoring of economic, employment and visitation trends within the State. Such information will help assess the conditions of the industry, determine management and marketing practices and provide insight into the long-range economic and social forces which may impact upon the industry.

A resource room has been established which will contain a wide variety of books, research reports, and periodic literature pertaining to travel and tourism. An information letter, conferences and seminars are planned for the future. The Directory of Tourism Scholars has been developed to help identify faculty at Penn State with expertise in various aspects of tourism.

Dr. Richard Gitelson, a specialist in tourism related research, will serve as the Director of the Center for Travel and Tourism Research. Dr. Gitelson, formerly of the University of North Carolina, brings a broad background of state level tourism research to this position. Those interested in finding out more about the Center's services may do so by phoning (814) 865-1854.

— Dr. Geoff Godbey, Professor of Recreation and Parks
The Pennsylvania State University

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